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26 APR 1962

MEMORANDUM FOR: Chief, Accounts Branch

SUBJECT : Balance in Headquarters Account No. 195.0, Accountability of
Decentralized Installations - Relating to Supply Control
Center, [REDACTED]

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I Introduction

An analysis has been made by the undersigned of the records and files pertaining to the subject account and set forth below are background information and discussion of the operations of the SCC, conclusions, and my recommendation as to the disposition of the credit balance in the account. Work papers and analysis schedules (Nos. 1-35) in support of the analysis are on file in the Property and Fiscal Unit.

II Background

1. The Supply Control Center, [REDACTED] which began operations in December 1953 had the responsibility for maintaining financial property accountability records covering [REDACTED] installations, as follows:

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2. The SCC was equipped with IBM machines and the overall processing became known as the "Machine Method." The system was designed to provide that individual property documents evidencing receipt, issue, or shipment of materiel were to be forwarded to the SCC for recordation of the transaction in the FPA records. Meanwhile, the financial transactions pertaining to the property accountability were being recorded by Headquarters from various sources: Class A Stations financial reports for cash procurements; Defense Department billings for credit procurement; and, property documents for transfers between stations and Headquarters.

3. A monthly reconciliation between the accountability acknowledged by SCC and the accountability account maintained by Headquarters was prepared for about six months after the establishment of the SCC; however, this was discontinued and subsequent thereto, only periodic reconciliations were made by categories, e.g., credit procurement, transfers, etc., with correspondence initiated between SCC and Headquarters when adjusting entries were required to bring the accounts into balance. Some of the reconciled worksheet balances were brought forward on the worksheets on the assumption that the adjusting entries would be made. The SCC submitted monthly listings of adjustments that had been made but no follow up was made by Headquarters on the items that had not been adjusted and the files do not reveal that a

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II Background (Cont'd)

3. (Cont'd)

cumulative record of open items was maintained. The lack of records and documentation make it impossible to reconstruct the accounts and it must be assumed that the differences represent unprocessed transactions and adjusting entries on the part of both Headquarters and SCC dating back to 1954.

4. In early 1956 the decision was made to decentralize property accounting, placing the responsibility at the larger stations for their areas and at Headquarters for the smaller stations. In April 1956, [REDACTED] was the first independent FPA station, followed by [REDACTED] in May, and the others later in the same year.

5. The SCC transferred its accounts to the various field stations and to Headquarters, and by the end of November 1956 was out of operation. As SCC made the various transfers, Headquarters made corresponding entries to clear SCC's account and charge the stations.

6. A temporary credit balance in the SCC 195.0 Account was expected until such time as the Class A accountings reflected payments for all property already processed through the SCC records. Credit in the Account 195.0 had been given for this property at the time it was transferred to the other stations. However, the gap between debits and credits failed to close, but instead widened as in-transit accounts for property presumably under the manual system were cleared.

7. By the end of Fiscal Year 1959, except for minor adjustments, the action in the SCC Account 195.0 had ceased. The Type I FPA stations' accounts were being reconciled monthly and had been purged of most items possibly pertaining to the old SCC days. The large discrepancy between SCC as of its closing date and the accountability for SCC on Headquarters books had to have some other source.

III Discussion

1. An analysis was made of all Headquarters' and SCC's postings by type of transactions: cash procurement; shipments between SCC, Headquarters, and other stations; procurement from the military, etc. The purpose was to localize the major discrepancies between Headquarters' and SCC's records by types of transactions, as the analysis of the detail of individual vouchers would not be possible without a 100% audit of thousands of transactions, the documentation for which would have been at the field stations but has since been destroyed.

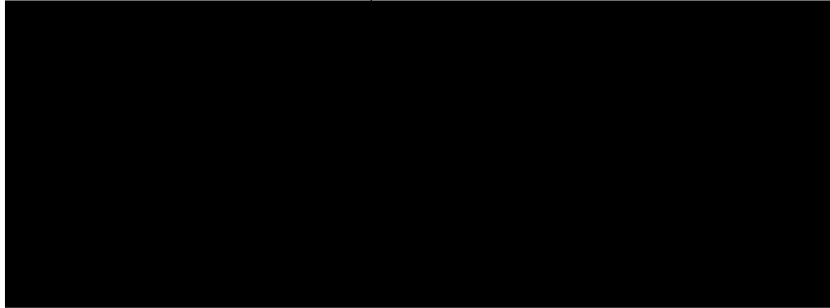
2. In the course of the analysis, errors on individual vouchers were noted and where significant in amount and where specific adjustments were in order, they were made only in the workpapers to arrive at an overall adjusted balance. Formal entries in the books of account have not been made because it was felt that one overall recording clearing the existing credit balance based upon the explanations of this balance by the review of transactions would be preferable.

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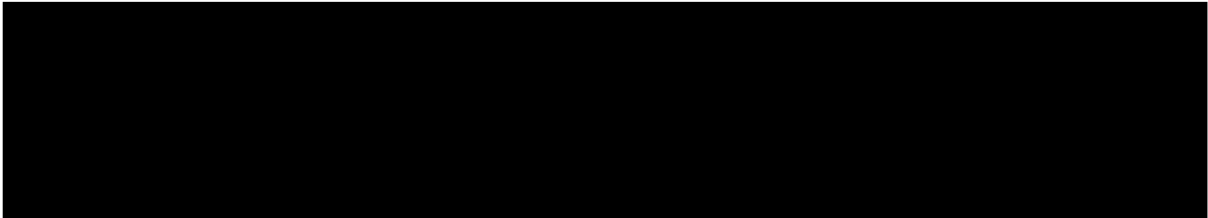
XII Discussion (Cont'd)

3. After the work paper adjustments mentioned above, which include the reversal of an amount written off in 1957 not identified to categories, the total credit balance was determined to be the result of discrepancies in the following categories:



a. Cash Procurement

Based on the review of two of the stations records and reports, the main reason for the large discrepancy in this category appears to be that SCC recorded property documents and Headquarters posted from the stations' financial accountings. The stations did not report all property as property subject to financial control on the financial accountings; this being particularly true of expendable items. Apparently when a comparison of financial accountings' listings (E-1 Schedules) with SCC postings was made, the check was limited to verifying that all items on the financial accountings were on the SCC listings and at the same value; the reverse check as to whether all SCC postings were reported on the financial accounts was not made. This was not unusual in as much as there was no clearing account at that time or suspense listing of SCC documents until they appeared on a financial accounting.



a. Lateral Shipments To and From SCC

1. These lateral shipments occurred during the period April - November 1956 -- April, when the first independent station was established; and November, when SCC was closed down.

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III Discussion (Cont'd)

3. (Cont'd)

c. Lateral Shipments To and From SCC (Cont'd)

2. The large discrepancies seemed to occur during the transition period when certain large stations were becoming independent from SCC. Headquarters was using an in-transit clearing account for shipments between these stations and SCC which required acknowledgment by both parties to the transaction in order to clear the accounts.

3. Two different systems of recording the SCC portion of the transactions were employed, both of them based upon the objective of clearing the independent stations' in-transit accounts. For the period April - June, the transactions reported by SCC were not posted, but based upon the independent stations' acknowledgments, SCC's Account No. 195.0 was debited or credited depending upon the direction of the shipment. This was a policing action to clear the independent stations' in-transit accounts after the closing of SCC. For August - November period, the SCC transactions were posted in the exact amount as recorded on SCC records, and many of them cleared the in-transit account when the independent stations acknowledged. When the independent station failed to acknowledge and could not identify the shipment, SCC was re-charged in a number of instances. This obviously contributed to the reconciling items. The assumption was that documents prior to the decentralized system were involved and were cleared internally on SCC records. However, there was no reconciliation of SCC's records with Headquarters at this time and these items did not surface as discrepancies. Effort, on the contrary, was centered upon clearing the independent stations' in-transit accounts.

4. Considering the large number of documents processed, the 25X1C number of reconciling documents were perhaps only 200 in number, but several were in large amounts. For example, the SCC 195.0

[REDACTED]

in the closing of SCC's books this amount was included in the write off of the inventory of a station converted to the detached station procedure at the time SCC closed down.

d. Shipments To and From Headquarters

1. Shipments to SCC from Headquarters were out of balance for a variety of reasons and in amounts which were fairly large, but because there were both debits and credits, they largely offset each other dollar wise.

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III Discussion (Cont'd)

3. (Cont'd)

d. Shipments To and From Headquarters (Cont'd)

2. Shipments to Headquarters were in substantial agreement except for a shipment of ordnance materiel (Approx. \$62,000) and commo equipment (\$6,000) not entered on SCC records but received and posted by Headquarters. In these instances the Headquarters IBM listings did not provide any cross referencing to the shipping station's credit voucher number and a search of the SCC records under the applicable code did not reveal such shipments.

IV Conclusions

1. The review that was made of the property activity of two stations concerning cash procurement, the category with the largest difference, would indicate that the primary reason for the differences is that many items of property recorded by the SCC were not reported as such in the financial accountings to Headquarters.

2. In the other categories, it would appear that the differences are result of improper accounting treatment particularly during the period of liquidation of the SCC.

3. In view of the fact that it would be impossible to make a complete detail analysis in order to resolve the differences that comprise the remaining balance in Account No. 195.0 (SCC), and since the balance is only the result of deficiencies in accounting classifications, pricing and extension differences and does not represent deficiency in the physical receiving and disposition of Agency assets, it would not appear practical, or economical to devote any more time to determine the adjustments that would be necessary to completely liquidate the credit balance.

4. Current procedures with respect to property transactions provide for the current reconciliation and follow-up on differences and have eliminated the weaknesses in the maintenance of the property control accounts at Headquarters which existed during the period the Supply Control Center was in operation.

V Recommendation

It is therefore recommended, in view of the circumstances as stated above, that the credit balance being carried in Account No. 195.0 Supply Control Center, [REDACTED] be written off to Account No. 450.0 - Invested and Donated Capital.

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